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CONTROL OF EXPENDITURES IN THE LOCAL GOVERNMENTAL UNITS OF ILLINOIS

BY

H. K. ALLEN



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LOCAL GOVERNMENTAL UNITS
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H. K. ALLEN

Department of Economics

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PREFACE

The local units of government in the United States are spending in excess of \$7 billion annually. Despite the magnitude of this sum, probably more than one-half of the 175,000 tax-levying jurisdictions do not have adequate methods of budgeting, accounting, auditing, and reporting. Numerous local governmental units are still following the same practices that were adopted when they were established many decades ago. Improvement in the financial administration of local government has not kept abreast of the increase in the range and scope of governmental activity.

The lack of modern instruments of financial control has undoubtedly served both to increase the costs of local government and to impair the efficiency with which its services are performed. Since popular control of the public purse strings is the keynote of democracy, inadequate methods of financial control have operated to undermine democratic processes. The original ideal of a responsible and truly representative government—the foundation upon which the political institutions of this country were established—is being seriously threatened by a system of local government that is becoming increasingly irresponsible and unrepresentative.

Since no single remedy can be suggested to improve the situation, the problem will probably have to be attacked upon several fronts. In addition to better methods of budgeting and related financial controls, other urgently needed improvements include the reorganization of local government and the improvement of government personnel. To a considerable extent all of these aspects are interdependent; this study will be directed primarily, however, to budgeting, accounting, auditing, and reporting. Substantial benefits can be derived from improving these techniques even in the absence of reforms along the other lines mentioned. While it is hoped that the facts presented herein will be of general interest and value, the study is designed especially to stimulate interest in conditions in Illinois.

In presenting the material the general nature and functions of budgeting, accounting, auditing, and reporting will first be discussed. This will be followed by a brief survey of the development and present status of such financial controls in other states. Next, the situation in the local governmental units of Illinois will be examined. With this background of pertinent facts, suggestions will be offered for the improvement of financial control in Illinois. No attempt will be made to

prescribe accounting forms and other similar accessories. The aim is rather to formulate sound principles of financial control. These should obviously serve as a guide to the accountant in providing the machinery for putting the recommendations into effect.¹

For reading the manuscript and making many helpful suggestions, I am indebted to Mr. G. W. Mitchell and Mr. I. M. Labowitz of the Illinois Tax Commission and to Professor M. H. Hunter, Head of the Department of Economics, University of Illinois. The Bureau of Business Research provided the facilities for conducting the study, and L. L. Thomas of the Bureau staff assisted in the collection of the data.

H. K. ALLEN

July, 1940

¹For valuable suggestions pertaining to the topic under consideration, see Lloyd Morey's *Introduction to Governmental Accounting*, 2d ed. (New York: J. Wiley & Sons, Inc., 1936).

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I. THE INSTRUMENTS OF FINANCIAL CONTROL

BUDGETING

The budget is the key instrument of financial control. In simplest terms, the budget document is a financial plan which contains a report on the previous and present fiscal years, as well as estimates of future revenues, expenditures, and other pertinent fiscal facts. The budget thus not only embraces the control of expenditures, but also includes control of revenues and taxation. The primary element in a budget is the balanced statement of estimated revenues and expenditures for the ensuing fiscal year. For each item of this estimate, there should be included a report of the corresponding revenues and expenditures for the previous year and for the current year. The data pertaining to revenues and expenditures, or the budget proper, should be accompanied by a balance sheet showing the resources and liabilities of the governmental unit in question at the beginning and at the close of the fiscal year immediately preceding.

A. E. Buck suggests that governmental budgetary procedure involves three principal steps: (1) the formulation of the financial plan; (2) the authorization of the budget; and (3) the execution of the financial plan.² Among local governmental units, budgets are commonly prepared by the legislative body, although the responsibility may be delegated to a committee or to an official. After the budget has been prepared, it is submitted to the legislative body for action. In some of the laws, provision is made for public hearings on the budget in order that the citizens may have an opportunity to express their approval or disapproval. After the legislative body has increased or decreased the requested items as may be necessary or desirable, the budget is adopted. With the exception of some of the smaller units, governmental budgets in the United States are without legal status. The financial plan embodied in the budget acquires legal status through the adoption of revenue and appropriation bills. In some of the smaller governmental units the budget does have a legal status, because in these units the financial plan and the tax ordinance are combined. Such budgets, of course, are of the most elementary type.

Professor Lutz lists three tests or requirements which are essential in connection with the execution of the budget.³ In the first place, the

²*The Budget in Governments of Today* (New York: The Macmillan Company, 1934), p. 46.

³H. L. Lutz, *Public Finance*, 3d ed. (New York: D. Appleton-Century Company, Inc., 1936), p. 893.

terms established by the legislature in the laws which authorized the budget plan must be complied with accurately. This means, among other things, that no warrant should be issued unless funds have been appropriated for the purpose and unless the unencumbered balance in the particular appropriation account is sufficient to cover the amount of the proposed expenditure. Second, the funds used in providing services should be efficiently administered. In the third place, reasonable regard should be given to economy in the operations undertaken.

Regardless of the care which has been exercised in the preparation of the budget, governmental departments often find that some appropriations are in excess of the needs, while others are insufficient. When such a condition arises, it is obviously desirable that the administrative departments should be able to transfer appropriations from one item to another. Unlimited authority to transfer appropriations from one item to another, however, would defeat the purpose of the budget. For this reason, it is essential that transfers be authorized by the legislative body.

ACCOUNTING

An adequate system of accounts is indispensable to the formulation and execution of the budget. The receipts and expenditures must be recorded in an accurate, complete, and detailed manner. A sound accounting system should show clearly and accurately at all times the financial condition of the government. Information should be provided as to the extent to which the estimated revenues are being realized. Besides the record of actual expenditures, the accounts should also show encumbrances in the form of orders and other commitments which represent charges against budget authorizations.

Other principles of governmental accounting selected from the recommendations of the National Committee on Municipal Accounting are as follows:

(1) The general accounting system should be on a double entry basis, with a general ledger in which all financial transactions are recorded in detail or in summary.

(2) The accounts should be classified according to funds.

(3) A clear segregation should be made between accounts relating to current assets, liabilities, and operations and those relating to fixed assets and liabilities.

(4) Inventories of both consumable and permanent property should be kept in subsidiary controls by accounts in the general accounting system.

(5) Accounting for municipal economic enterprises should follow the standard classification employed by similar private enterprises.⁴

Complete uniformity of accounting in local governmental units is impracticable, for the activities of the various units are not of identical nature. Greater uniformity, however, would facilitate the comparison and interpretation of accounts. Units on the same level, particularly those with comparable activities, might well employ uniform systems of accounting. Greater standardization of local accounting is largely dependent upon state action and support. By appropriate action, the states can help to make the accounting systems of local government more effective.

AUDITING

- Auditing is an integral part of the budgetary process. Not only is it indispensable to expenditure control, but it provides a check to determine whether or not all receipts have been handled properly. By means of the "pre-audit," the legality and accuracy of financial transactions are verified before payment. Pre-audits are usually internal: that is, they are made by an auditor or other official within the governmental agency. The other type of audit is the "post-audit," which is conducted after the fiscal transactions are completed. Post-audits may be internal or external. An audit is said to be external when it is made under the authority and responsibility of the legislative branch of the government. Outside auditors are frequently employed to make independent governmental audits. The independent audit is a fundamental accompaniment of a well-conducted private business. Such an audit is no less essential to the efficient management of the public business.

It should not be assumed that the function of the auditor is limited to the verification of the accuracy and legality of the accounts. Important as the detection of error, fraud, and illegal acts may be, governmental audits should also include constructive criticisms for improving the fiscal system and the administration of public services.

REPORTING

Adequate reporting of pertinent facts relative to governmental finance logically follows a properly designed budgetary, accounting, and auditing procedure. A complete report of the finances and operations of government is essential to a proper management and control

⁴*Municipal Funds and Their Balance Sheets* (Chicago: 1935), pp. 75-6.

of public affairs. Public officials themselves cannot administer their functions efficiently unless they are fully informed regarding the financial and other aspects of their respective agencies. The electorate, moreover, certainly cannot exercise intelligent control of public affairs in the absence of complete reports prepared in a clear, simple, and easily comprehensible manner. Finally, effective research in the field of public finance requires the availability of financial statistics in a readily accessible form. Uniform reporting of governmental finances to some state central agency for units of the same grade would greatly facilitate comparative studies of the finances of the various units.

Reports for general purposes need not, of course, be prepared in such great detail as those for use by the administrative officers. Besides a balance sheet or statement of assets and liabilities, the general reports should show whence the "tax dollar" is derived and where it goes. For the purpose of providing a check against the budget, the statements of revenues and expenditures for each fund should be compared with the budget estimates. This information will help the citizens to determine whether too large a proportion of the social income is being diverted through governmental channels, and whether too much or too little is being spent for a particular service. The introduction of graphs, charts, and other methods of pictorial presentation in published reports makes the information clearer and more interesting. More complete information regarding the activities of a particular department can be published in the form of departmental reports.

II. MUNICIPAL BUDGETING, ACCOUNTING, AUDITING, AND REPORTING IN THE UNITED STATES

With few exceptions, the most highly developed systems for the control of municipal finances are found in those states that have prescribed local financial practices through general laws of state-wide application. One of the earliest instances of state supervision over county and local offices occurred in Indiana, where in 1852 the state auditor was given these supervisory powers.⁵ Twenty-six years later, in 1878, Minnesota created the office of state examiner; this examiner was given the power to inspect the accounts of county officers. A year later Massachusetts provided for uniform accounts, periodical reports, and the inspection of county accounts.

In 1890, the new state of Wyoming, in its first constitution, established a comprehensive system of state supervision of local accounts by a state examiner. Other states followed to some extent. Montana and North Dakota each created the office of state examiner. South Dakota and Nevada provided for similar supervision under the state auditor, and Kansas under a state accountant. In 1903, Nevada established a more intensive control under a state board of revenue; and in the same year Florida created the office of state auditor, whose duties included the supervision and inspection of county accounts.

One of the most comprehensive of the early laws relating to the state control of municipal finances was adopted by Ohio in 1902. This law provided for a uniform system of accounting, auditing, and reporting for every public office in the state, under a newly established bureau of inspections in the office of the state auditor, and authorized annual examinations of the finances of all public offices.

A digest of the legal provisions relating to governmental accounting, auditing, and reporting, as of July 1, 1937, in 30 of the states which have some form of control, is shown in Table I. A uniform system of accounts for units of the same grade is required in 15 states, and such a system is compulsory for specified units in 8 other states. In a few instances the use of a uniform system of accounts is optional with the local units. A large majority of the states do not furnish books and forms for the local governmental units, there being only 3 states in which these facilities are provided.

⁵For a more detailed discussion of the development of state control, see Fairlie & Kneier, *County Government and Administration* (New York: The Century Company, 1930), pp. 394-415, and Fred R. Fairchild and Associates, *Forest Taxation in the United States* (Washington: U. S. Department of Agriculture, Miscellaneous Publication, No. 218, 1935), pp. 329-332.

TABLE I
LEGAL PROVISIONS AFFECTING LOCAL GOVERNMENTAL ACCOUNTING, AUDITING, AND REPORTING AS OF JULY 1, 1937

State	Accounting		Auditing			Reporting			
	Uniform Systems Required	Books and Forms Furnished by State	By a State Agency	Conducted by	Frequency of	Expense of Borne by	Financial Statement to State Required	Uniform Blanks Provided by State	Published by State
Arizona	Counties	Yes	For counties	State examiner	Annually	State	Counties	.....	No
California	No	No	No	.....	.....	.....	Yes	Yes	Yes
Colorado	Yes	No	No	.....	.....	Local unit	Counties	Yes	No
Connecticut	Yes	Prescribed	Upon request	Tax commissioner	.....	Half by state; half by local unit	Yes	Yes	Yes
Florida	Counties or Sub-taxing District	No	Yes	State auditing department	Periodically	State	Yes	Yes	Yes
Idaho	Counties	No	No	Public accountants; audit supervised and reviewed by Bureau of Public Accounts	Every two years	Local unit	Counties	No	Not consistently
Indiana	Yes	Prescribed	Yes	Department of inspection and supervision of public officers	Annually	Local unit	Yes	Yes	Yes
Iowa	Yes	No	Yes	State auditor	Annually	Local unit	Yes	Yes	Yes
Kansas	Yes	Sample furnished to printers; cost local	No	Private firms	Annually	Local unit	No	No	No
Kentucky	Counties and schools	Prescribed	Yes	Departments of finance and education	Annually	Local unit	Yes	Prescribed	Seldom
Massachusetts	Optional	Books and supplies provided; cost local	Yes	Division of accounts; department of corporations and taxation	Biennially	Local unit	Yes	Yes	Yes
Michigan	Yes	No	Yes	Auditor general	Annually	State	Yes	Approved by auditor general; cost local	No
Mississippi	Yes	No	Yes	State accounting dept.	Annually	Local unit	Yes	Yes	Yes
Missouri	Yes	Installation supervised; cost local	Yes	State auditor	Biennially	State	Yes	Form guide	No
Montana	Yes	No	Yes	Office of state examiner	Annually	Local unit	Yes	Yes	No
Nebraska	Counties	Forms suggested; cost local	Yes	State auditor	Annually—Biennially	State	No	No	No

TABLE I—Concluded
LEGAL PROVISIONS AFFECTING LOCAL GOVERNMENTAL ACCOUNTING, AUDITING, AND REPORTING AS OF JULY 1, 1937

State	Accounting		Auditing				Reporting		
	Uniform Systems Required	Books and Forms Furnished by State	By a State Agency	Conducted by	Frequency of	Expense of Borne by	Financial Statements to State Required	Uniform Blanks Provided by State	Published by State
Nevada	Counties	No	Counties	State auditor	Annually	State	Counties	Yes	Yes
New Hampshire	Yes	Yes	Yes	Municipal accounting division of state tax commission	When needed	State	Yes	Yes	Yes
New Jersey	Yes	Yes	To a limited extent	State auditor	Annually	Local unit	Yes	Yes	No
New Mexico	Yes	Yes; cost of printing local	Yes	State comptroller or independent accountants under his regulations	Annually	Half state; half local when by comptroller; local when by independent	Yes	Yes	No
New York	Yes	No	Yes	Board of municipal accts. in office of state comptroller	Often as possible	State	Yes	Yes	Yes
Ohio	Yes	No	Yes	State examiners	Annually—Biennially	Local unit	Yes	Prescribed	Yes
Oregon	No	No	Upon request	Division of audits	Annually	Local unit	Yes	Yes	Yes
Pennsylvania	No	No	Where state money involved	Department of auditor general	.....	.....	Yes	Yes	No
Rhode Island	Optional	No	Upon request	Commissioner of finance	.....	Half by state; half by local unit	Yes	Yes	.....
South Carolina	No	County auditor-treasurer	No	.....	.....	Local unit	No	No	No
South Dakota	Yes	No	Yes	Division of audits-accounts	Cities-annually; counties-biennially	Local unit	Yes	No	Yes
Texas	Counties	No; samples only	Yes	State comptroller	Annually	Local unit	Yes	Yes	Yes
Virginia	Counties and courts	Yes; cost local	Yes	Auditor of public accounts	Annually	State and local unit	Yes	Yes	For counties
Wisconsin	Optional	No	Upon request	Municipal accounting division, department of state	Periodically	Local unit	Yes	Yes	Yes

Source: Questionnaires returned by state agencies.

Audits of local accounts by a state agency are compulsory in 17 states, whereas such audits are made in several other states upon the request of the local unit or under other conditions. The duty of conducting local audits is sometimes delegated to the state auditor, although some specially created office or agency is often assigned the task. Among the states which conduct local audits, the examinations are made annually in 14 states and biennially or irregularly in the others. City finances are audited annually in South Dakota, but county audits are biennial. The cost of the audit is borne by the local unit in 16 states, by the state in 8 states, and shared by the state and the local unit in 4 states.

The efficacy of state audits of local accounts is attested by the amounts recovered as a result of the audits. Several states reported large recoveries from shortages resulting from errors and defalcations.⁶ Connecticut recovered \$540,000 over the ten-year period which ended in 1938; Indiana recovered \$868,000 in 1937 and approximately equivalent amounts in the two preceding years; \$233,000 was recovered in Kentucky during the period 1932-1936; Ohio recovered \$1,646,000 from 1933 to 1937; recoveries in Virginia amounted to \$1,500,000 for the period 1931-1937; and recoveries in Wisconsin for the four years prior to the first half of 1938 were \$106,000. Michigan reported no figures, but stated that shortages had been discovered in every county. A few states reported smaller recoveries than those listed above, while several stated that no records were kept. Despite the large recoveries, the reporting agencies were practically unanimous in the belief that the greatest value of a state audit lies in the incentive which it affords to accuracy in the maintenance of records and in the prevention of embezzlement. The local officials know that any shortages are almost certain to be discovered and that they will be prosecuted in the event of defalcation.

The costs of maintaining state offices of public accounts naturally depend upon the scope of the activities and the distribution of the costs between the state and the local units. South Dakota reported costs of only \$10,000, whereas Massachusetts incurred an expenditure of \$210,000 for the purpose. In most of the states, the costs amount to about \$50,000 annually for this service. Whether the cost is above or below the amounts recovered is not important, for, as previously suggested, the greatest value of the audit cannot be expressed in terms of dollars and cents. Many of the state offices of public accounts per-

⁶Questionnaires to state agencies charged with the audit of local accounts provided this information.

form other valuable services, such as assistance in the installation and maintenance of good accounting systems and the preparation and publication of financial reports.

Few states have adopted comprehensive budget laws which apply to all of the minor political subdivisions. Budget laws, on the contrary, have usually taken the form of special legislation for a particular unit. Some twenty states, for example, have enacted statutory provisions for county budgets. A large majority of the local units, however, are not required to adopt budgets. The appropriation ordinance and the tax-levy ordinance are common requirements in municipalities, but these have few of the essentials of a budget. Several states have recently adopted budget laws for particular units, thereby furnishing evidence of an increasing demand for improved financial administration. Examples of these are the County Budget Law which was adopted in Missouri in 1933 and the County Budget Law and the Municipal Budget Law which were enacted in Illinois in 1933 and 1937, respectively.

With this general discussion of the development and present status of financial control in the municipalities of various states as a background, the situation in Illinois will be examined.

III. FINANCIAL CONTROL IN THE LOCAL GOVERNMENTAL UNITS OF ILLINOIS

According to the survey of local finance made by the State Tax Commission, Illinois has 15,118 taxing units, or more than are found in any other state. A summary of these taxing units is presented in Table II.

TABLE II
SUMMARY OF TAXING UNITS IN ILLINOIS—1938

Unit	Number
State.....	1
Counties.....	102
Townships.....	1,435*
Road districts.....	181
Cities, villages, and incorporated towns.....	1,138
Elementary school districts.....	11,298
Twelve-grade school districts.....	140
High and non-high school districts.....	683
Park districts.....	70
Sanitary districts.....	28
Fire protection districts.....	25
Forest preserve districts.....	6
Mosquito abatement districts.....	6
Public Health districts.....	4
Tuberculosis sanitarium districts.....	1
Total.....	15,118

Source: *Survey of Local Finance in Illinois*, Vol. III, Illinois Tax Commission, 1939.

*Corrected to exclude Chicago townships, which do not qualify as taxing units.

In Illinois, the problem of financial control is intensified by the multiplicity of these taxing units. Every resident of the State lives within at least four tax-levying jurisdictions, and some citizens are taxed by as many as ten or twelve districts. Each layer of government operates independently of the others to a considerable extent. To keep in close touch with the financial affairs of these numerous bodies imposes a burden that most citizens are unable or unwilling to bear.

In this study, space permits only the suggestion that all local units except the highly specialized districts should be abolished and that their functions should be transferred in a logical manner to the county and to the city or village.⁷ This change should greatly simplify the problem of financial control and improve the efficiency of local government.

⁷For a more detailed discussion of the consolidation of local units, see Bulletin No. 52, *Costs and Services of Local Government in Selected Illinois Counties*, 1936.

With the exception of a few funds derived from State-aid or State-administered, locally-shared taxes, such as the Motor Fuel Tax Fund, the statutes of Illinois prescribe no system of standard or uniform accounts for the local units of government. Each unit sets up its own system of accounts and makes provision for its own forms and record books. Notwithstanding the fact that the local taxing units collect and spend millions of dollars of the taxpayers' money, no State agency in Illinois audits the local accounts. Neither does Illinois have a central office of public accounts which receives and publishes financial statistics of local government. For most of the taxing districts, moreover, the fiscal year is not clearly established by statute.

Counties and other specified units are required by law to adopt budgets. Budget laws and practices, together with the systems of accounting, internal auditing, and internal reporting which prevail in the local units, will be discussed in later sections.

A. CITIES, VILLAGES, AND INCORPORATED TOWNS

The three distinct types of incorporated places in Illinois are cities, villages, and incorporated towns. With the exception of ten cities and thirty-one incorporated towns which operate under special charters granted prior to the adoption of the Constitution of 1870, municipalities derive their powers from general laws enacted by the Legislature. The Constitution of 1870 prohibited special charters and forbade special laws for the incorporation of cities, towns, or villages. The City of Chicago comes under the general laws governing cities, but it is also subject to special laws which do not apply to other cities in the State.

Any unincorporated territory having a population of not less than 1,000 and an area not exceeding four square miles may become a city. Any territory that has not less than 300 inhabitants and an area not exceeding two square miles may be incorporated as a village. Several villages have a population much larger than the minimum required for cities, yet prefer to operate under the village system. The Village of Oak Park, with a population of 63,982, is a notable example.

Cities may operate under either the aldermanic or the commission form of government. Under the former, the governing body consists of a mayor elected at large in the city, and aldermen, elected by the wards. The commission form of government is administered by a mayor and four commissioners, all of whom are elected at large. Each village elects at large a president, comparable to the mayor in cities, and a board of trustees consisting of six members. A rather com-

plicated managerial plan is authorized for cities or villages of 5,000 inhabitants or less. It is paradoxical that in Illinois the larger cities, which would logically seem to have the greatest need for a city manager, cannot have such an official. Many attempts have been made to enact such legislation but these efforts have been unsuccessful.

Budgeting

Illinois laws, relating to village, aldermanic, and commission forms of municipal government, require that the comptroller, if there be one, otherwise the clerk, shall prepare a budget before the annual appropriation ordinance is adopted.⁸ This budget shall contain an estimate of all moneys necessary to defray the expenses of the corporation for the ensuing fiscal year. The report shall classify the different objects and branches of expenditures, giving, as nearly as possible, the amount required for each. The budget shall also show the aggregate income for the preceding fiscal year from all sources, the amount of liabilities outstanding upon which interest is to be paid, and the bonds and other obligations payable during the year. Since cities and villages were already required by law to adopt a budget, these units were exempted from the Municipal Budget Act of 1937.

The smaller cities and villages usually do not prepare a formal budget. Probably one reason for this neglect is the rather general opinion that the adoption of an appropriation ordinance is sufficient. In view of the provisions of the statute and the requirements of good business practice, the larger places would naturally be expected to prepare carefully itemized budgets. An analysis, made by W. E. Karrenbrock, of financial practices in a selected group of the larger cities and villages disclosed, however, an absence of formal budgets in a large majority of the places that were included in the survey.⁹ Of the eight villages in Illinois that have a population in excess of 10,000, only two prepared a budget. Only six of the twenty-four cities included in the survey that were operating under the aldermanic form of government prepared a budget. The commission form of government is regarded as especially well-adapted to a businesslike management of municipal affairs, but only four of the twenty-four cities included in the Karrenbrock survey that were operating under this system fully complied with the budget law.

⁸*Illinois Revised Statutes*, State Bar Association Edition, 1939, Ch. 24, sec. 117. (Legal citations are not given except for some of the more important provisions.)

⁹*The Administration of Municipal Funds With Special Reference to Illinois Cities*, Doctoral Dissertation, University of Illinois, 1932.

In contrast with the neglect of a large majority of the cities and villages to prepare a budget, all of these units adopt an appropriation ordinance and a tax-levy ordinance. The former is essential to give legal effect to the expenditures, and the latter is the basis of the tax levy. These ordinances are often prepared in a perfunctory manner and frequently contain only a few lump-sum items. In many cities the preparation of the appropriation ordinance consists of copying the ordinance for the previous year. The tax-levy ordinance is then copied from the appropriation ordinance. The two ordinances obviously should not coincide if a city has any income from other than property-tax revenues. Another reason why the items and the totals in the two ordinances might logically not agree is that the appropriation ordinance authorizes the expenditures for the ensuing fiscal year, whereas the tax-levy ordinance is the basis of the taxes that will be collected for purposes of the next fiscal year. These ordinances do not fulfill the requirements of a carefully prepared budget. They should be based upon the comprehensive financial plan that is embodied in the budget. Taxpayers are often able successfully to contest the legality of the taxes levied against them when the appropriation ordinance and the tax levy ordinance are improperly itemized and inadequately described.

The argument that the small amounts expended by many of the smaller cities and villages do not warrant the preparation of a budget or financial plan is not defensible. A financial plan is indispensable to the successful operation of every enterprise, whether large or small, private or governmental. The ultimate burden upon the taxpayer is not only the taxes imposed by the larger units, but it includes also the amounts levied by the numerous small tax-levying jurisdictions. That the latter represent a substantial sum is suggested by the fact that approximately one-half of all public revenues is derived from local taxes. The cost of inefficiency in a particular small unit may seem inconsequential, but when such costs for all the jurisdictions are combined they may well assume significant proportions. Moreover, a small waste may be just as burdensome to the taxpayers of a small unit as a much larger waste would be to the taxpayers of a larger unit. Entirely aside from the question of administrative efficiency, every governmental unit should adopt a budget and pursue sound financial practices, because it handles other people's money. Without adequate methods of managing expenditures, the taxpayers cannot properly control the public purse strings, and a departure from a responsible system of representative government is the inevitable result. Proper methods of controlling expenditures should be maintained, therefore, even if

the costs exceed any savings that might be effected. As a matter of fact, such an eventuality is little more than a remote possibility.

The following suggestions relate to the principal steps that should be followed in municipal budgetary procedure. First, each department, at the request of the officer or committee responsible for the preparation of the budget, should present estimates of necessary expenditures for the ensuing fiscal year. Second, estimates should be made of expenditures for general purposes, including unpaid bills and the interest and retirement of outstanding debt. Third, estimates of revenues should be compiled, with proper allowance for tax limits, collection costs, and tax delinquency. Fourth, if the proposed expenditures exceed the revenues that may reasonably be anticipated, the estimates of expenditures must be adjusted downward, or new sources of revenues must be found. Fifth, the balanced budget, together with a statement of existing indebtedness and the actual receipts and expenditures for the preceding fiscal year, should be submitted to the governing body. Sixth, the municipality, after ample notice, should hold a public hearing on the budget in order to give the taxpayers an opportunity to present any objections which they may have to the financial plan. Seventh, the budget should then be adopted by the governing body. Eighth, the appropriation ordinance should next be prepared in strict accordance with the estimates of expenditures in the budget, after which it should be adopted. Ninth, the tax levy should then be prepared, with proper allowance for revenues to be derived from other than tax sources.

In addition to compliance with the foregoing recommendations, separate controls should be established for each of the funds. This control involves the setting up of an account for each fund. Each fund should be charged with obligations as they are incurred, whether or not actual payment has been made. In this manner, the unencumbered balance in a particular fund can be determined at any time. Since indiscriminate transfers from one fund to another would defeat the main purpose of the budget, all transfers should be approved by the governing board.

Accounting

Although the accounting systems used by many of the larger cities are fairly satisfactory, the smaller municipalities and some large ones often have little more than a cash book and a warrant register. The records of bonded and floating debt in many cities, both large and small, are seriously deficient. Several cities have experienced considerable difficulty because of an inadequate accounting system for special

assessment funds. Collections from the various special improvement projects have been commingled, with the result that funds from one project have been used to retire the bonds of another project. In this manner, all the bonds of one project have been paid off although tax collections were in arrears, whereas another project has been in default on its bonds notwithstanding the fact that sufficient taxes were collected to pay the bonds.

Auditing and Reporting

The city clerk or the comptroller, if such an officer has been appointed, has general supervision over all the officers of the corporation charged in any manner with the receipt, collection, or disbursement of corporate revenues, and the collection and return of all such revenues into the treasury. The responsibility for internal auditing is largely centered with the city clerk or comptroller, but the treasurer and the city council also perform auditing tasks.

Many of the larger cities follow the practice of having an annual post-audit by an outside auditor, but a large number operate over a long period without such an audit. In cities and villages that have the commission form of government the council is required to have a full and complete examination of all books and accounts made by a competent accountant at the end of each year.¹⁰ A few examples of shortages that have recently been discovered indicate the need for a better system of municipal audits. An audit made in one Illinois city in 1938 disclosed that the city clerk had embezzled between \$50,000 and \$60,000 over the six-year period from 1931 to 1937. A recent audit of a village uncovered a shortage of \$11,500 that had accumulated from 1931 to 1936 in connection with special assessment funds. In this case the village has been threatened with a suit on the ground that taxpayers' payments for the retirement of special assessment bonds had been used for other purposes. A shortage of \$5,320 was reported in 1939 in the water fund of another village. The audit was the first since the village was incorporated 17 years ago, and was ordered by several newly elected trustees who had opposed the officials in office when the village speed-trap was exposed. According to the report of the auditor, the funds were embezzled between 1932 and 1939. The auditor stated that the records of the water fund were so jumbled that he had to call upon the principal water users of the village to ascertain how much they had paid.

The large majority of public officials are no doubt honest and

¹⁰*Illinois Revised Statutes*, Ch. 24, sec. 305.

trustworthy, but the misappropriations of a few cast a reflection upon the entire group. The occurrence of such events as have been mentioned, moreover, undermines the principle of popular control of the purse strings. If a State agency were established to audit all local accounts, defalcations could be reduced to a minimum, and when they did occur, they could be detected quickly.

Cities, villages, and incorporated towns are required to make both internal and external financial reports. With reference to the former, the treasurer must make a report to the city council or board of trustees each month or oftener, showing all receipts and expenditures and the balance on hand in the treasury. It is also the duty of the treasurer to make out and file with the clerk annually a report that includes a detailed account of all receipts and expenditures for the preceding fiscal year, together with other financial information. The clerk must then immediately cause the annual report to be published in a newspaper printed in the city, if there be one, or, if not, the report must be posted in a public place in the clerk's office. The numerous items included in the published reports and the inadequate description of the items make it difficult for the citizen to gain much information from them. If the items were classified under the main headings and published in summary form, the value of the published reports would be enhanced. This plan would make it possible to include statistics for previous years and thus show the trend of revenues, expenditures, and indebtedness. For the protection of the officials, it might be desirable to itemize the salaries and other payments to members of the city council, the elective officials, and the principal appointive officials.

The council of every city or village that operates under the commission form of government and has a population of over 15,000 is required to print each month in pamphlet form a detailed itemized statement of all receipts and expenditures and a summary of its proceedings during the preceding month.¹¹ In places of less than 15,000 population, the reports are annual rather than monthly. In either case, it is necessary to furnish printed copies of the report to the State library, the city library, and all daily and weekly newspapers of the city or village. The annual audit report must also be published and distributed in the manner and form previously described. Much can be said in favor of the published reports of cities that operate under the commission form of government, but they also are insufficiently itemized.

¹¹*Illinois Revised Statutes*, Ch. 24, sec. 305.

Every city, village, and incorporated town should be required to file an annual financial report, uniform for cities of approximately the same size, with a State department which, in turn, should publish such financial statistics.

Control of Motor Fuel Tax Funds¹²

In contrast to the shortcomings in the control of general expenditures in most of the incorporated places, the State exercises strict control over motor fuel tax funds spent by these units. The Motor Fuel Tax Law, popularly known as "the gasoline tax law," imposes a tax on the privilege of operating motor vehicles upon the public highways. After the deduction of certain amounts to pay the cost of administering the Act and to pay refunds authorized by law, one-third of the remainder is apportioned to the Department of Public Works, one-third to the several counties of the State, and one-third to the several municipalities. The allotment to the counties is made in proportion to the amount of motor vehicle license fees received from the residents of the respective counties during the preceding calendar year. The share of each municipality in the total amount apportioned to such units is based upon the population of the municipality as determined by the last preceding Federal census. The State exercises strict control over the use of motor fuel tax funds both in counties and in municipalities, but only the latter are of interest here. The general nature of the control, however, is similar for the two types of local units.

From its allotment, a municipality must first set aside whatever amount may be necessary under the law to pay its share of any obligations that have been incurred for relief purposes. The remainder can be used only for such purposes and under such conditions as are specifically authorized by law. The purposes for which the funds may be used are as follows: (1) the construction, reconstruction, and maintenance of State highways in the municipalities, or the maintenance of Federal secondary roads; (2) the construction, reconstruction, and maintenance of a system of arterial streets or thoroughfares, other than State highways, in the municipality as may be designated by the council, or president and board of trustees, and approved by the Department of Public Works and Buildings; (3) the construction, reconstruction, and maintenance of extensions of such arterial streets or thoroughfares outside the corporate limits of the municipality; (4) the payment of engineering costs in connection with all such work

¹²See *Illinois Revised Statutes*, Ch. 120, secs. 417-432.

heretofore described; and (5) the payment of any municipal indebtedness which has been or may be incurred in the construction, reconstruction, maintenance, opening, widening, or improving of such arterial streets or thoroughfares or State highways.

Before a municipality can use any motor fuel tax funds, it must first adopt a resolution stating specifically the purpose or purposes for which the funds are to be used, and the resolution must be approved by the State Department of Public Works and Buildings. In the event that the funds are to be used for construction or reconstruction, the resolution must specify the location, type, length, and width of the proposed improvement. When the resolution has been approved by the Department, the municipality may make surveys, plans, specifications, and estimates of the proposed project and submit them to the Department for approval. If the proposed project is approved, the municipality may advertise for bids and let contracts for the project to the lowest responsible bidder; or, with the approval of the Department, it may do the work itself. No contract, however, can be let without the approval of the Department. All work must be performed in accordance with the approved resolutions, plans, specifications, and contracts, and it is the duty of the Department of Public Works and Buildings to inspect the work to such an extent as may be necessary to insure compliance.

Except in the case of contracts, the money is paid to the municipality as it is needed; if contracts are involved, the money is paid upon the approval of the contracts. The Department of Public Works and Buildings has designed, in accordance with the law, a uniform system of accounts for county motor fuel tax funds, but there is no legal authority for similar action in the case of cities and other incorporated places. The Department, nevertheless, has recommended to the cities certain forms and procedures which are considered essential to a proper accounting for the funds on a uniform basis. The installation and use of these forms on a purely voluntary basis has been very successful.

By means of periodical audits, the State maintains a careful check upon the use of motor fuel tax funds in the incorporated places. For this purpose, the State is divided into ten auditing districts, and an auditor is assigned to each district. In order to reduce miles of travel and otherwise eliminate unnecessary expense, each auditor is provided with a schedule of the cities and villages in his district in the order in which the audits are to be conducted. Auditors are instructed to watch for illegal payments and improper charges, as well as the mathematical accuracy of records and proper use of funds. When an irregularity

in the use of funds is discovered, the local unit is requested to make restitution. The early audits disclosed very poor records, numerous irregularities, and widespread misuse of highway funds. Approximately \$300,000 of improperly used funds has been recovered. In some instances in which cash refunds have not been made as requested, the Department has notified such units that further payments would be withheld until restitution had been made. With the improvement in the system of accounts and the assistance of the auditors, cities and villages are handling motor fuel tax funds much more nearly in accordance with the law than formerly, and it is expected that no serious difficulty will be encountered in the future.

B. COUNTIES

Illinois has 102 counties, 17 of which operate under the commission form of government, while the remainder, with the exception of Cook, have the township system.¹³ In the former, the administration of county government is vested in a board of three commissioners. In counties under township organization, the county board consists of supervisors elected in the various townships. Except for the difference in the composition of the county board, the two systems of county government are practically the same. Regardless of type of organization, the election in each county of a county judge, a state's attorney, a sheriff, a county clerk, a clerk of the circuit court, a coroner, a treasurer, and a county superintendent of schools is authorized in the Constitution. As might be expected from the similarity in structure, the administration of county affairs, including finances, is much the same in the two types of government. Most of the laws that relate to financial administration thus apply alike to counties of either type.

Budgeting

A County Budget Law was passed in Illinois in 1933 which makes it compulsory for each county not required by law to pass an annual appropriation bill within the first quarter of the fiscal year to adopt a budget each year for the succeeding fiscal year.¹⁴ The effect of the general exception mentioned is to exclude only Cook County. The law does not prescribe a fiscal year, but provides rather that the county board of each county shall determine its own fiscal year. The annual

¹³Cook County has somewhat of a hybrid commission-township system for which a great deal of special legislation has been enacted, and it is therefore not included within the scope of this survey.

¹⁴*Illinois Revised Statutes*, Ch. 34, secs. 110g-110m.

budget must contain: (a) a statement of the receipts and payments and a statement of revenues and expenditures for the fiscal year just ended; (b) a statement of all moneys in the county treasury or in any funds thereof unexpended at the termination of the fiscal period last ended, of the amounts due or accruing to such county, and of all outstanding obligations or liabilities of the county incurred in any preceding fiscal year; (c) estimates of all probable income for the current fiscal year and for the ensuing fiscal year covered by the budget, specifying separately the estimated income from taxes, fees, and other sources; (d) a detailed statement showing estimates of expenditures for the current fiscal year, revised to the date of such estimate and, separately, the proposed expenditures for the ensuing fiscal year for which the budget is prepared and a statement of funded and floating indebtedness; and (e) a schedule of proposed appropriations itemized according to the several objects and purposes of the expenditures. The schedule of appropriations required in (e) becomes, when adopted, the annual appropriation ordinance. When the budget is adopted it is really a combined budget and appropriation ordinance. All estimated receipts and proposed expenditures and all amounts in the treasury of the county are to be classified in the budget under the several county funds provided for by law.

Transfers from one appropriation of any fund to another of the same fund, not affecting the total amount appropriated, cannot be made except at a meeting of the board and upon approval by a two-thirds vote of all the members of the board. Appropriations in excess of those authorized by the budget, moreover, cannot be made except by a similar vote of the board.

Under the budget law, the county treasurer is required to keep a separate account with each fund to show at all times the cash balance thereof, the amount received for the credit of each fund, and the amount of payments made therefrom. The county auditor in each county with a population of more than 75,000 and the county clerk in each other county, must keep a similar account with each fund to show (1) the amount appropriated; (2) the date and amount of each transfer from or to such appropriations; (3) the amount paid out under the appropriation; (4) the amount of the outstanding obligations incurred under the appropriation; (5) the amount of the encumbered balance of the appropriation; and (6) the amount of the free balance of the appropriation.

The penalty for any violation of, or neglect or failure to comply with, the terms of the budget law is a fine not exceeding \$1,000, or

TABLE III
OPERATION OF THE COUNTY BUDGET LAW IN 75 ILLINOIS COUNTIES

	Number of Counties Answering		
	Yes	No	Noncommittal
Adopts annual budget.....	73	2	...
Administers finances more efficiently.....	54	12	9
Control over each item shows:			
Unexpended balance.....	65	5	5
Obligations incurred.....	45	19	11
Appropriation transfers:			
Made frequently.....	38*	23	3
Approved by county board.....	68	...	7
Show source and destination.....	63	4	8

Source: Questionnaires returned by county clerks.

*Includes 11 that reported occasional transfers.

imprisonment for six months in the county jail, or both. In case of violation by the county board, each member of the board is subject to these penalties.

In order to determine the effectiveness of the county budget, a questionnaire was sent to each county clerk in the State. A summary of the information obtained from the replies to these questionnaires is presented in Table III. Of the 75 counties that reported, all except 2 either stated positively or implied that they adopted a county budget. As to whether the adoption of a county budget had improved the administration of county finances, 54 replied in the affirmative, 12 in the negative, and 9 were either doubtful or noncommittal.

Since no budget is stronger than the system of control that is maintained over it, the questionnaire included questions relative to this aspect. With the exception of 5 counties, all that replied to the question stated that they used a method of control which showed at all times the unexpended balance in each appropriation account. Nineteen counties, on the other hand, reported that their system of budgetary control did not show the obligations incurred but not paid, and the unencumbered balance in each appropriation account. The effectiveness of budgetary control depends pretty largely upon knowledge at all times of the unencumbered balance of each appropriation. Without this information, the officials cannot determine whether or not they are adhering to the budget.

Thirty-eight of the reporting counties stated that they frequently found it necessary to make transfers from one appropriation to another, and 11 counties reported that they occasionally had to make

such transfers. Without exception, transfers are not made until they are approved by the county board. Except in 4 counties, each appropriation account shows what transfers, if any, have been made from or to it. Doubtless it may be necessary or desirable to make transfers from time to time, yet budgetary control breaks down unless an accurate record is kept of each transfer.

Several counties issue warrants when there is not a sufficient balance in the treasury for paying them, and occasionally warrants are issued when the unencumbered balance of the appropriation against which they are chargeable is insufficient to cover them. These practices result in serious abuses and are contrary to good budgetary procedure. In a few instances, counties have unpaid warrants that have been outstanding for several years. In such cases, the creditors are usually compelled to accept a substantial discount if the warrants are sold to some bank, merchant, or other person before a sufficient balance is available in the treasury for payment. The treasurer should be prohibited by law from issuing a warrant unless ample funds are available for payment. Such a limitation upon the issuance of warrants would prevent the vicious system of deficit financing and would exert pressure upon the governmental unit to put its finances in order.

Notwithstanding the defects that have been mentioned, the county budget law in Illinois seems to be operating in a fairly satisfactory manner. The law itself is a marked improvement over the haphazard system that prevailed prior to its adoption. Budgetary practices might no doubt be greatly improved in some counties by the establishment of a State agency authorized, among other duties, to assist the county officials in setting up and maintaining a good system of budgetary control.

Accounting¹⁵

With a few minor exceptions, the legal requirements that pertain to the system of county accounts, forms, and records are general in nature. Each county officer who is paid in whole or in part by fees must keep a record of all payments received and of all expenditures made by him on account of clerk hire, stationery, fuel, and other expenses. The receipts of the various offices, less legal deductions, must be paid over to the county treasurer not later than the middle of the month immediately following. The county treasurer is required to keep "proper" books of account, in which he shall keep a record

¹⁵The provisions discussed in this section apply only to counties of the first and second classes; Cook County is not included.

of all moneys, revenues, and funds received by him and all expenditures made by him agreeable to law. Although the law does not prescribe a uniform system of accounts for counties of the first and second classes,¹⁶ there is actually considerable similarity in the records and accounts of these units. Numerous counties purchase their account books and forms from the same firm. The various stationery and supply companies, moreover, have standardized their products to a certain extent. Since the structural organization and administrative procedures are much the same in both large and small counties, it seems that a uniform system of accounts might well be required in all counties.

The present system of accounting could be simplified by consolidating the separate accounts of the fee officers with the general treasury accounts. Under this system all receipts of the fee officers would be covered into the treasury immediately, and any payments for the maintenance of the fee offices would be made only by the county treasurer and in accordance with the usual authorization. The salaries of the fee officers are fixed by law, but must be paid only out of the fees of the office actually collected. All fees in excess of the salaries must be paid into the county treasury. The centralized system of accounting that has been suggested should be accompanied by the payment of salaries to fee officers without regard to the amount of fees collected. To base the compensation of a public official upon the fees of his office has long been recognized as objectionable. This feature of the Illinois law could not be changed, however, without a constitutional amendment.

The use of expensively bound records and hand labor impairs the efficiency of the accounting processes. The office routine of local governmental units has been slow in becoming mechanized. Many of the expensive books are replaced each year, and often a large part of the book is unused. The installation of a loose-leaf system of records with low-priced transfer binders is highly desirable.

Little progress has been made as yet in the application of cost accounting techniques to the functions of local government. Although it is true that many of the services are intangible, it should, nevertheless, be possible to compute the costs in a fairly accurate manner. The whole system of fees is based on arbitrary charges which at best are only crudely related to the cost of the service rendered. Cost accounting would not only help to determine unit costs, but it would also suggest the volume of work that could be handled most efficiently.

¹⁶A uniform system of accounts is mandatory in all of the fee offices in counties of the third class, which includes only Cook.

The latter information would be of great value in any program of consolidation.

Auditing

Each county under township organization with a population of less than 300,000 and more than 75,000 according to the last Federal census is required by law to elect a county auditor, whose term of office is four years.¹⁷ Under the 1930 census, the following counties had sufficient populations to render the election of a county auditor compulsory: Du Page, Kane, Lake, LaSalle, Macon, Madison, Peoria, Rock Island, St. Clair, Sangamon, Vermilion, Will, and Winnebago. It is the duty of the county auditor (1) to audit all claims against the county and recommend to the county board the payment or rejection of all bills presented, (2) to collect statistical information with respect to the cost of maintenance of the various institutions of the county such as the jail, courthouse, etc., (3) to approve all bills for supplies issued by the various county officers before the orders are placed, (4) to keep a record of all contracts entered into by the county board and all authorized county officers on the behalf of the county, (5) to report quarterly to the county board all fees and emoluments due the county from the various county officers as earned, collected, or received under performance of their duties, and (6) to audit the records and accounts of each county officer who receives money on the behalf of the county at the expiration of his first two years of office and again at the expiration of his term.¹⁸ From this list, it will be noted that the elective county auditor has extensive duties with respect both to the pre-audit and to the post-audit.

In the large majority of counties that do not have an elective auditor, the responsibility for the pre-audit is divided among the numerous county officials and the county board. Where there is no elective county auditor, the law prescribes that the county board shall appoint a competent auditor to make a post-audit.¹⁹

The most serious weakness in county audits is found in the external post-audits of counties that do not have an elective county auditor. The inadequacy of many of the audits is attested by the periodical disclosures of defalcations that occurred over a period of several years prior to detection. An audit of one county in Illinois made in 1936, for example, disclosed that two county treasurers had misappropriated \$600,000 of county funds between 1918 and 1933. Because

¹⁷*Illinois Revised Statutes*, Ch. 34, sec. 160.

¹⁸*Ibid.*, sec. 162.

¹⁹*Ibid.*, sec. 162a.

the Illinois statute of limitations against a crime of this type had expired, the defaulting officials could not be prosecuted. In another case, a county clerk incurred a shortage of \$534,000 between 1910 and 1934, but the defalcation was not discovered until 1935. Other similar cases of embezzlement could be cited, but these are sufficient to indicate serious defects in county audits. A system of auditing that permits such shortages to go undetected over a long period of years should not be tolerated.

To some extent, the defects in county audits are attributable to the fact that entirely too much emphasis is placed upon the cost of the audit when an auditor is employed. In several of the small counties, the cost of the audit is limited to \$100 or \$200. Because of the amount of work involved in a county audit, nothing more than a superficial audit can be expected for such prices. Any effort on the part of public officials to hold down expenses is, of course, commendable, but such attempts can easily be carried too far in the case of audits.

Competitive bidding in the letting of auditing contracts emphasizes cost rather than quality of service and is of doubtful justification. The element of judgment enters largely into the services of an auditor, and for this reason the work cannot be measured with any degree of accuracy. It is next to impossible in advertising for bids to specify accurately the scope and quality of a governmental audit. If an independent auditor is to be employed, counties and other local units of government should be free to select a reputable auditor at a price commensurate with the quality of service that is required in a good audit.

If a county auditor were available in each county, the audits might no doubt be greatly improved, but many counties are too small and have too limited financial resources to support such an office. Perhaps the best solution would be to establish a State Office of Public Accounts with authority to make, without advance notice, audits of counties and other local governmental units. The mere existence of such an agency, with the possibility of an audit at any time, should serve to prevent defalcation. If funds have been misappropriated, the State audit should quickly disclose the fact, and thus facilitate recovery of the funds and prosecution of the offender. The office of county auditor should be made appointive rather than elective. The appointment should be made by the county board from a list of names of those candidates certified by an appropriate State agency as being qualified for the office.

Reporting

The inter-office or internal reports that are required of county officials include the monthly reports to the treasurer of the receipts of the fee officers, the semi-annual reports of the receipts and expenditures of the fee officers to the county board, and the reports of the treasurer to the county board, at each regular term thereof, showing all receipts and expenditures and the balance in the treasury.

One of the principal published reports of county finances is the statement that the county board is required to publish at the end of each meeting. This statement includes the names and amounts of all claims allowed. At the September meeting, annually, the county board is required to make out, for publication in a newspaper in the county, a statement of receipts and expenditures for the preceding year, together with the amount of outstanding indebtedness and other pertinent fiscal facts. A copy of the annual financial report must be posted at the courthouse door and at two other places in the county, but publication may be waived if it cannot be done at reasonable expense.

The large number of items that are included in the published reports renders it almost impossible for the ordinary citizen to analyze county finances. The reports would be more intelligible if the items were classified according to the appropriation accounts to which they relate. This plan would also greatly reduce the costs of publication.

Under the present system the counties are not required to make any reports of general county finances to the State. Comparative studies of county finances in Illinois can therefore be made only by means of separate surveys in each county. Adoption of a uniform system of accounts for counties would provide a basis for uniform reports to a State office. Publication by the State of financial statistics of counties and other local units would logically be the next step.

C. SCHOOL DISTRICTS

The 12,121 school districts in Illinois consist of 11,298 elementary school districts, 140 twelve-grade school districts, and 683 high and non-high school districts.²⁰ These three general categories include nine distinct types of organization. Since 1841 the State has been divided into school townships based as nearly as practicable upon the congressional or land-survey townships established under the Ordinance of 1785. Each school township elects three trustees who, in turn, appoint a township treasurer. These officers have charge of school lands and funds derived therefrom, keep records of district finances, and

²⁰See Table II.

distribute state and township school funds. For elementary school purposes, each school township is divided into a number of districts, varying widely in size and usually with irregular boundaries. High school districts may be consolidated with elementary districts, or they may be entirely separate. A high school district that is a separate unit may coincide in area with the congressional school township, or it may be based upon some other area. Not infrequently, high school district boundaries cut across school township lines. The entire area of each county that is not included in a twelve-grade or high school district constitutes the non-high school district, which is managed by a board of four members. One of these members is the county superintendent of schools and the other three are elected.

The governing body of every elementary or high school district in Illinois consists of either a board of school directors or a board of education. The former is composed of three elective members and is found in districts that have less than 1,000 population. From these three members, the board appoints a president and a clerk. A large majority of the school districts in the State are of this type. A board of education, consisting of a president and six members, is the corporate authority in the majority of districts whose population is more than 1,000. The school district of Chicago is governed by a board of education consisting of eleven members appointed by the Mayor. Peoria is a special-charter district, with a board of seven members.

While the township trustees have specified powers over all the districts in the township, each district is a body corporate, and, as such, hires the teachers, determines the nature and scope of the curriculum, levies taxes, issues bonds when approved by the voters, purchases books, supplies, and equipment, and maintains the school buildings and grounds. The county superintendents of schools and the State Superintendent of Public Instruction exercise supervision and control over the local schools. Largely as a result of State aid, the activities of the State, the county, and the local districts in school affairs are more closely integrated than almost any other governmental function. Financial practices and procedures in the various school districts have been unified to a considerable extent to meet the requirements for State aid.

Budgeting

With two exceptions, the adoption of the Municipal Budget Law in 1937 marks the introduction of a system of budgetary control in the school finances of Illinois.²¹ One of the exceptions is that the

²¹*Illinois Revised Statutes*, Ch. 120, secs. 365.1-365.5.

Chicago School District has for many years been required to adopt a budget. The other exception is that for several years all elementary schools eligible for special State aid have been required to present a so-called budget to the State Superintendent of Public Instruction to support their claims for such aid. The former is a comprehensive financial plan, the execution of which is strictly regulated by law. The latter contains merely the levies for educational and for building purposes and the estimates of expenditures for educational purposes. It does not include the estimates of expenditures for building purposes, and it is neither formally adopted nor rigidly executed. The law requires that separate levies be made and separate funds be maintained for educational and for building purposes, but these requirements are independent of the budget prepared for State-aid purposes.

The Municipal Budget Law as originally adopted in 1937, included all municipal corporations and political subdivisions of the State except (a) the State of Illinois; (b) counties; (c) cities, villages and incorporated towns; (d) specified sanitary districts; (e) forest preserve districts having a population of 500,000 or more; (f) boards of education in school districts exceeding 500,000 inhabitants; and the Chicago Park District and certain other park districts. The numerous exemptions limited the application of the law to school districts that had a population of less than 500,000, townships, road districts and certain other special-purpose districts. The scope of the law was further narrowed by an amendment in 1939 that rendered adoption of a budget and appropriation ordinance optional, under certain conditions, for any school district governed by a board of directors. This optional provision, which will be discussed later, applies to a large majority of the school districts in the State.

The law, as amended in 1939, provides that the governing body of each municipality subject to the measure must specify a fiscal year and must, within or before the first quarter of each fiscal year, adopt a combined annual budget and appropriation ordinance. By means of this ordinance such sums are to be appropriated as may be deemed necessary to defray all necessary expenses and liabilities of the municipality. The ordinance must specify the objects and purposes for which the appropriations are made, together with the amount appropriated for each object or purpose. The budget that is contained in the ordinance shall contain a statement of the cash on hand at the beginning of the fiscal year, an estimate of the receipts expected from all sources during such fiscal year, an estimate of the expenditures contemplated for such fiscal year, and an estimate of the balance that is expected to be on hand at the end of the fiscal year.

Provision is made for public inspection of the tentative budget for at least a week prior to final action thereon. It is also necessary to hold at least one public hearing on the proposed budget and appropriation ordinance, at which hearing the citizens are given an opportunity to raise questions and to voice objections. Notice of the hearing must be given by publication in a newspaper published in the municipality at least one week prior to the time of the hearing. If there is no newspaper published in the municipality, notice of the hearing must be given by posting notices thereof in five of the most public places in the municipality.

After the budget and appropriation ordinance has been adopted, no further appropriations can be made at any other time during the fiscal year, except that the ordinance may be amended from time to time by the same procedure that is provided for its original adoption. The governing body, however, may make transfers among the various items in any fund in any appropriation not to exceed in the aggregate 10 per cent of the total amount appropriated in such fund. This authority does not permit transfers between the educational fund and the building fund. It will be noted that, in contrast with the county budget law, the Municipal Budget Law does not require the elaborate system of budgetary control that is found in the former. This fact is not mentioned as a criticism, for the small districts, at least, could hardly be expected to follow the procedure that is required of counties.

As a safeguard against actions by railroads and other large taxpayers to set tax levies aside, it is provided that failure to adopt the annual budget and appropriation ordinance, or to comply with any of the other provisions of the law, shall not in itself affect the validity of tax levies. Though failure to adopt the budget and appropriation ordinance does not invalidate the tax levies, there can be no legal expenditure of funds unless such an ordinance has been adopted. Although a taxpayer, under the provision mentioned, could not object to his taxes on the ground that the governmental unit had not complied with the budget law, he might be able to restrain the officials from making expenditures that had not been properly authorized. A further provision, applicable only to schools governed by boards of directors, was added by the amendment of 1939. This measure provides that the failure of any school district governed by a board of directors to adopt a budget and appropriation ordinance shall not affect the authority of the school district to make expenditures. It will be remembered that the amendment of 1939 renders optional, under cer-

tain conditions, the adoption of a budget and appropriation ordinance by school districts governed by a board of directors.

Extensive powers and duties pertaining to municipal budgets were conferred upon the State Tax Commission by the budget law, but this agency has been seriously handicapped in carrying out its duties by the lack of ample funds and an adequate staff. With the limited resources available, the Commission has achieved commendable results. The principal powers of the Tax Commission with reference to municipal budgets are as follows: (1) to formulate and approve forms, procedure, and regulations for the budget and appropriation ordinance, provided that no municipality is compelled to follow the suggestions of the Commission; (2) to collect copies of budgets, appropriation and tax-levying ordinances, and other pertinent information, and to publish annually a statistical summary, comparison, and forecast of municipal revenue, expenditures, financial condition, services furnished, and costs for each revenue-producing project, enterprise, or undertaking; (3) to advise and assist the officers or governing body of a municipality with respect to their budget procedure and accounting practices, and in the formulation and installation of such books, records, systems of accounts, or other forms as may be required to comply with the provisions of the law; (4) to conduct training schools for municipal officers; (5) to publish from time to time pamphlets relating to budgetary or similar topics; and (6) to make all necessary rules and regulations that may be deemed desirable to carry the law into effect, provided that no compulsion or restraint may be exercised against the municipalities or their officials. Notwithstanding the desirability of having all of these powers and duties carried out fully, the activities of the Tax Commission in municipal budgeting have been confined mainly to the preparation of forms and instructions and the collection of copies of budgets.

The original Municipal Budget Law enacted in 1937 had been in operation only a short time when considerable opposition, particularly from school officials, developed against it. One of the first criticisms was that the forms suggested by the Tax Commission were too complicated. The aim of the Commission, as stated in the instructions, was to make the forms conform to good business practice, yet to keep them as simple as the statutes and court decisions would permit. Regardless of the validity of the objection, it is true that a large majority of the school boards had their county superintendents of schools fill out the forms.

A second criticism of the budget law was that the restrictions upon the transfer of funds from one appropriation to another encouraged budget-padding through an increase in tax levies in order to insure ample revenues. This argument does not carry much weight, because budgets cannot be padded when governmental units are levying the maximum legal rates; the rates of many school districts have reached the limit. Budget-padding, moreover, would result in surpluses at the end of the year, unless the funds were squandered, and the existence of such surpluses would make it difficult to justify further padding the next year. The segregation of funds that is required in a good budgetary system does inject an element of rigidity, but a good budget system must always represent a compromise between flexibility of appropriations and effective control of expenditures. If funds can be freely transferred from one appropriation to another, the budget breaks down, yet undesirable rigidity results when no transfers can be made. In normal times, past experience should enable a governmental unit to estimate with a reasonable degree of accuracy the amounts that are likely to be needed for the various purposes.

A third objection, based upon the small attendance at the budget hearings, was that the citizens are not interested in the details of school finance. It is true that attendance at the hearings has been small, but it must be remembered that the budget law has been in operation only a short time and no doubt many citizens are unfamiliar with the procedure. The fact that the citizens do not take an active interest in school finances makes it all the more imperative that the officials carefully plan and execute the financial program. Only in this manner can public officials discharge the responsibility that the democratic system of government imposes upon them.

A fourth argument that was advanced against the budget law was that the small sums involved did not warrant the preparation and execution of a financial plan. The total tax bill, it will be remembered, is determined not only by the taxes levied for school purposes but also by the sum total of taxes levied for all purposes. If maximum value is to be received for every tax dollar spent, it is therefore essential that the expenditure of every dollar be carefully planned. In a highly decentralized system of local government, the aggregate of small leaks may amount to considerable waste.

Fifth, opposition to the budget law was based upon the contention that it resulted in encroachment upon home-rule in school affairs. The powers and duties of the Tax Commission in municipal budgeting

have been listed, and it has been explained that they are purely advisory in character. In any event, the budget system makes it possible for a local unit to manage its affairs more in accordance with the principles of responsible self-government.

Finally, some of the opponents of the budget have contended that school finances are a matter of concern to the school district alone, and that outsiders have no interest in the matter. This point of view ignores the fact that school districts derive a substantial portion of their revenue from State aid and that all the citizens of the State, through payment of the sales tax, contribute these revenues. Railroads and other absentee owners of property in the district, moreover, contribute directly to the property-tax revenues of the district. Every citizen of the State thus has a right to demand that each school dollar be spent in the most effective manner possible.

As a result of the opposition that had developed, an attempt was made in 1939 to exclude school districts from the budget law. The friends of the measure rallied to its support, and a compromise amendment was adopted whereby the larger districts that were governed by a board of education were to continue under the budget law, whereas the districts that were governed by boards of directors could choose between compliance with the regular budget law and an alternative procedure. Under the alternative procedure, the board of directors must post in five of the most public places in the district copies of its claim for State aid, including the certified budget that is submitted with the claim. The claim, together with the certified budget, must remain posted and conveniently available to public inspection for at least one week prior to the meeting of the board of directors held for the purpose of voting the annual tax levy of the school district. The posted copies may contain information additional to that prescribed for claims for State aid, but such information is not required.

The budget that is required as a part of the claim for State aid, it has been noted, does not include an estimate of the expenditures for the building fund, and therefore is not a complete financial plan. A school district, moreover, is not required to adhere to the financial plan that is embodied in the claim for State aid. Unless a school district complies with the regular budget law, therefore, it really does not have a budgetary system. To encourage the districts that are governed by boards of directors to operate under the regular budget law, the amendments that were adopted in 1939 included a provision that the Tax Commission should prepare simplified and condensed forms for the small school districts and other small municipalities.

Accounting and Auditing

Greater uniformity is found in the books of account, forms, and records of school districts than in any other of the subordinate political units. This condition has largely been brought about through the influence of the State Superintendent of Public Instruction. Some of the books and records of the county superintendent of schools are prescribed by statute, but many of them have been recommended by the State Superintendent. The law requires that the township treasurer shall keep his accounts in such manner as may be directed by the Superintendent of Public Instruction, the county superintendent of schools, or the trustees of the school. The types of books and the manner of keeping the accounts are prescribed in detail. The township treasurers' official account books are furnished by the State office and are thus uniform throughout the State. The township treasurer is custodian of the funds for all of the school districts in his township. For his services he receives a salary that is fixed by the township trustees. The township treasurer keeps separate accounts for each school district and maintains a township fund which includes the earnings from the sixteenth section of common-school lands, as provided by the Ordinance of 1785, or from the proceeds of the sale of said lands and funds for State-aid purposes. Transfers are made periodically from the general township fund to the accounts of the various districts. In many cases, the records and accounts of the individual districts consist only of an order book and a minute book.

In many school districts the boards of directors issue orders in payment of expenses, and these orders are cashed at the banks by the recipients without being presented to the treasurer and receiving his check or countersignature. This practice makes it impossible for the treasurer to exercise proper control over district expenditures. Another objectionable feature in school finances arises from the necessity of making separate tax levies for educational and for building-fund purposes. Since separate levies are required, transfers between funds would be of doubtful legality. It is often difficult, moreover, to determine whether a given expenditure is for one purpose or the other. The instructions in the township treasurer's official account book, for example, include the suggestion that janitor service performed for the benefit of the building, as distinguished from the benefit of the school, is chargeable against the building fund. Insurance on the building and permanent fixtures attached thereto should be paid for out of the building fund, whereas insurance for movable equipment and supplies should be paid for out of the educational fund. For these reasons, it

seems desirable to combine the two main funds and to set up new headings for building-fund purposes if such new accounts are essential.

The office of township treasurer has been the target of much criticism in recent years. It is contended that the appointments are often made on a purely political basis, and that the salaries paid are sometimes far in excess of reasonable compensation for the services rendered. Instances have come to notice in which treasurers have used school funds for private purposes or have built up excessively large balances, directly or indirectly, for personal gain. Since the county superintendent of schools distributes State-aid funds and exercises extensive control over the local districts, he might well also assume the custody of all school funds. In this capacity, the county superintendent should be able to render valuable assistance in the execution of school budgets at a cost lower than under the present system.

A system of post-audits more extensive than that found in any of the other local units is prescribed for school districts. Once each year the county superintendent examines all books, accounts, and vouchers of every township treasurer in the county. If any irregularities are found, they are reported to the trustees, who are required to take such action as the case demands. An examination is also made of all notes, bonds, mortgages, and other investments that the township treasurer holds in his official capacity, and the board of trustees is notified if there are any irregularities or shortages. The township trustees, moreover, examine twice each year all books, mortgages, bonds, notes, and other investments held by the township treasurer. On the first Mondays in April and October of each year, the township treasurer examines the official records of each district in the township. In September of each year the county board audits the accounts and verifies the vouchers of the county superintendent of schools. These audits have unquestionably served a very useful purpose, but if a State office should be established to audit all of the local units, it would probably be desirable to have post-audits of the type described. Many of the large districts have comprehensive audits made by independent outside agencies, but the smaller districts seldom have such audits. A large majority of the school districts, therefore, are not audited by disinterested persons.

Reporting

Among the extensive system of internal reports required of schools are those of the district clerk, the township treasurer, the township trustees, the county superintendent of schools, the treasurer of the

non-high school district, and the State Superintendent of Public Instruction.

The district clerk makes an annual report to the township treasurer of such financial statistics and other information relative to his district as the treasurer is required to include in his report to the county superintendent of schools. The treasurer's report includes complete information as to the bonds, mortgages, notes, and other securities held as principal of the township fund, and a detailed statement of all receipts, disbursements, and indebtedness. Semi-annually, in April and October, the township treasurer files a statement with the trustees that shows the amounts of interest, rents, issues, and profits on township lands and funds that have accrued since their last regular meeting, together with the amount of distributive funds on hand. At the meeting of the trustees following the annual election, the treasurer presents a complete exhibit of the fiscal affairs of the township and of the several districts or parts of districts in the township, showing all receipts and expenditures, and the amount of obligations outstanding. For the guidance of the districts in the planning of their finances for the next fiscal year, the treasurer, in April and July of each year, submits to each district a statement of the exact condition of the account of such district, as shown by his books on April 1 and June 30, respectively.

The trustees of schools of each township are responsible for the preparation and submission to the county superintendent of schools, on or before July 15 of each year, of such financial statistics and information as may be required by the State Superintendent of Public Instruction. Any township that does not comply with this provision shall forfeit its portion of the distributive fund for the next fiscal year.

The county superintendent of schools presents to the county board at its regular meeting in September of each year a report of all receipts and expenditures of county school funds and the amounts distributed to each of the township treasurers in his county. Using the information that is provided in the reports of the township treasurer, the county superintendent of schools makes an annual report at the close of the fiscal year to the State Superintendent of Public Schools.

The county treasurer, as treasurer of the non-high school district of the county, reports to the secretary of the board of education of the non-high district annually in June the receipts, expenditures, and balance on hand of funds belonging to the district. The county treasurer also makes a complete report of the finances and other affairs of the non-high school district to the county superintendent of schools once each year.

The numerous internal reports that have been mentioned are, of course, for the information of school officials. To provide information for the citizens, the township treasurer is required to publish in some newspaper of his county an annual statement of the finances of the township. By far the most valuable publication of financial statistics and other material concerning schools is the *Biennial Report of the State Superintendent of Public Instruction*. This report is the only one published by a State office that contains comprehensive facts and figures for the local governmental units of a particular type. This publication grows out of the requirement of the law that the State Superintendent of Public Instruction shall, on or before the first of November preceding each regular session of the General Assembly, report to the Governor the condition of the schools in the several counties of the State. The information in the report is derived from the annual reports of the county superintendents of schools referred to above.

Since the *Biennial Report of the State Superintendent of Public Instruction* is an extraordinarily useful and valuable publication, and represents the type of report that should be published for other units of local government, it seems appropriate to describe its contents in some detail. The report includes information on the number of schools taught in each county; the number taught by men and women, respectively; the number of pupils in attendance; the amount of township funds; the amount of interest on the State or common school fund, and on the township fund, annually paid out; the amount of revenues raised by an ad valorem tax; the amount annually expended for schools; the number of schoolhouses, their kind and condition; the number of townships and parts of townships in each county; the number of books purchased for the use of schools, and their cost; the value of apparatus purchased; the number of district libraries; and such other information and suggestions as may be deemed important in relation to the schools and school laws, and the means of promoting education throughout the State.

In the section on budgeting, attention was called to the fact that the Municipal Budget Law gives the Tax Commission power to collect financial statistics of the local units that come under the law, and to publish annually a summary of such statistics. In view of the comprehensive report of the State Superintendent of Schools, the inability of the Tax Commission to publish a summary of financial statistics is not so serious in the case of schools as it is in the case of the other local units.

D. TOWNSHIPS AND ROAD DISTRICTS

The term "municipality" as defined in the Municipal Budget Law includes civil towns, or townships, and road districts. Illinois has 1,435 of the former and 181 of the latter. Although the boundaries of civil townships and school townships often coincide, the two units have no political connection. Civil townships are found in the 85 counties (including Cook) that operate under the township form of government. Local highway administration is an integral part of township organization in counties that have this form of government, although separate levies are made and separate accounts maintained for highway purposes. The 17 counties that operate under the commission form of government do not have any civil townships, but they do have road districts which, like the former, in many instances are coterminous with school townships. In Hardin County, which has the commission form of government, all of the road districts have recently been consolidated into a single district. The principal functions of civil townships are poor relief, highways, and property-tax assessments; the authority of road districts is limited exclusively to highways. Both types of units are county subdivisions that have been established to facilitate the administration of state functions.

The principal elective officers in civil townships are the supervisor, the clerk, the highway commissioner, the assessor, and justices and constables. The officers of road districts are the highway commissioner and the clerk. In the townships, tax levies for general township purposes and pauper relief are authorized by the electors at the annual town meeting. Tax levies for highway purposes, under either the township or the commission system, are made by the highway commissioner. The township supervisor is treasurer of township and highway funds, and the clerk of the road district serves as treasurer of road district funds.

Control of Expenditures in Townships and Road Districts

Since townships and road districts are subject to the Municipal Budget Law, the earlier discussion of the provisions of the law applies also to these units and need not be repeated here. The task of assisting the townships and road districts with the preparation of their budgets has fallen largely to the county clerk. The original law provided that the governing body of each municipality subject to the measure should designate some person or persons to prepare a tentative budget and

appropriation ordinance. The amendment of 1939 provides, however, that unless provision has otherwise been made at the town meeting, the tentative ordinance for purposes other than highways shall be prepared by the board of town auditors.

Prior to the adoption of the Municipal Budget Law, the control of expenditures in townships and road districts was lamentably weak. These units had nothing that was worthy of the name of a financial plan. Tax levies usually consisted of a few general, lump-sum items, and ordinarily no attempt was made to maintain controls for the various items. Funds earmarked for a particular purpose were frequently diverted to other purposes. To a large extent, townships and road districts, before the adoption of the budget law, could spend their funds as they pleased.

Occasionally, a treasurer kept township or district funds in his own personal bank account. The account books ordinarily consisted of only a journal and a cash book. As an extreme example of an inadequate system of accounts, one township's treasurer kept his records on the backs of sales slips that he had received from the local grocery store. It is not suggested that compliance with the budget law will correct all of these practices, but it should greatly improve the financial practices of these units.

In each township, the supervisor, the town clerk, and the justices of the peace constitute a board of town auditors whose duty it is to examine the accounts and audit all charges and claims of the township and highway funds.²² The board of town auditors must meet at least twice each year, but in many townships the meetings are held more frequently. These audits are usually only a perfunctory verification of claims, expenditures, and the balance on hand. Seldom are the receipts verified against the sources from which they are derived. A post-audit by a competent auditor not officially connected with the township is indeed a rarity in township government. The audits of road districts are even less adequate, for these units have no external audits. The county superintendent of highways does exercise some control over highway expenditures under either system of local government, since he must approve in writing any contract for the construction or repair of roads or the purchase of equipment that involves an expenditure of more than \$200. It is highly desirable that the accounts of townships and road districts be audited by some State agency in accordance with the plan suggested for other local units.

²²*Illinois Revised Statutes*, Ch. 139, sec. 117.

Townships and road districts are required to make various reports. On the Tuesday preceding the annual town meeting, the township supervisor files with the clerk a statement of all receipts, expenditures, indebtedness, and other pertinent information. The report is read aloud to the electors at the annual town meeting, and a copy thereof is posted at the place where the town meeting is held. According to the law the report must also be published in a newspaper, but a large number of the reports are not so published.²³ The usual explanation given for not publishing the reports is that it saves the taxpayers the cost of publication. It is doubtful, however, whether most taxpayers favor this type of economy. Full and complete knowledge of all the facts is the best assurance against suspicion in public affairs. Non-compliance of road districts with the requirement for publication is especially objectionable, since such units have no meeting of electors comparable to the annual town meeting in counties under township organization. If the report is not published, the only way that a citizen can get information on finances is to examine the original records. A provision of the law, moreover, requires that copies of the published reports be filed with the county clerk, but compliance with this provision is rare. Since attendance at the annual town meeting is usually small, the citizens have no way of knowing how the money was spent unless the reports are published. The value of the reports would be greatly enhanced if the expenditures were classified according to the principal purposes and the amounts paid to the officials indicated. A summary report of this type would also reduce the cost of publication.

The overseer of the poor and the highway commissioner are required to file reports with the county clerk and the county superintendent of highways, respectively. Before the first meeting of the county board in September of each year, each overseer of the poor must report to the county clerk the name of every person relieved or supported in his jurisdiction, the cause of the dependency, and the nature and amount of the aid given. The county clerk must then file one copy of this report with the county board, and one copy must be sent to the Department of Public Welfare.²⁴ The highway commissioner is required to furnish to the county superintendent of highways, within thirty days after issuing warrants, a list of such warrants showing to whom the money was paid, the amount expended, and for what purpose.²⁵

²³*Illinois Revised Statutes*, Ch. 102, secs. 5-6.

²⁴*Ibid.*, Ch. 107, sec. 30.

²⁵*Ibid.*, Ch. 121, sec. 56, par. 11.

Control of Local Expenditures for Relief

In addition to the control of township expenditures for relief purposes under the Municipal Budget Law, the Illinois Emergency Relief Commission exercises close supervision over expenditures for this purpose in the townships that receive financial assistance from the State.²⁶ In counties that have the commission form of government, the county board of commissioners is charged with the administration of relief, and here the supervision by the Commission supplements the local control under the County Budget Law. Since the general features of State control over relief expenditures are similar in the two forms of local government, this discussion will be confined to townships. In counties under township organization, the supervisor usually serves as overseer of the poor. State grants to the local units for relief purposes are paid from the Emergency Relief Fund, the revenues of which are derived from a portion of the retailers' occupation tax (sales tax) receipts.

Before a local unit can secure financial assistance from the State for relief purposes, it must levy a tax for this purpose of at least 30 cents on each \$100 of assessed valuation of the taxable property within the district.²⁷ If a township does not levy the minimum rate prescribed as a prerequisite to State aid, it is not subject to the supervision of the Commission.

Townships eligible for State assistance are required to prepare monthly an itemized statement showing estimates of the relief necessary to be furnished to needy persons and the expenses for the administration thereof in the township. Administrative expenses are limited by law for each township during any year to 10 per cent of total moneys expended for relief purposes.²⁸ The obvious purpose of this provision is to minimize administrative expenses, and to forestall the spending, for salaries and other overhead costs, of an inordinate part of the sums provided by the State. To the extent that this limitation precludes the employment of an adequate staff of trained investigators, it may retard the pruning of relief rolls and thereby actually increase relief costs. The Commission is authorized to prescribe regulations for the use and expenditure of all funds, including local resources, for the administration of relief, whenever any part of the funds is derived from the State. It is a responsibility of the Commission to require that relief be granted according to a uniform budget

²⁶*Illinois Revised Statutes*, Ch. 23, sec. 394.

²⁷*Loc. cit.*

²⁸*Loc. cit.*

standard within each township, and to supervise the setting of these standards and their enforcement.

A uniform system of accounts is prescribed for townships that receive State aid, and the supplies are furnished by the Commission. This system of accounts, when properly kept, shows full and complete information relative to all pertinent aspects of local relief administration. The local accounts, moreover, are audited from time to time by representatives of the Commission, and any irregularities are reported. If, in the determination of the Commission, any township does not comply with all rules and regulations, it is the duty of the Commission to notify promptly the overseer of the poor. If, within fifteen days after such notice, the overseer refuses or fails to comply with the rules and regulations, the Commission is required to instruct the county treasurer of the particular county to withhold the payment of any further State funds until willingness to comply with the rules and regulations has been signified. Since July 1, 1936, four township supervisors have resigned their office as a result of having been cited by the Commission and having State relief funds withheld. In practically every instance in which townships have been cited by the Commission, the failure to keep proper relief and financial records and to submit accurate reports have been among the reasons for such citation. A steady improvement has been noted, however, in the accounts and reports of the local units as they have become familiar with the procedure.

The county board of each county is required to submit monthly to the Auditor of Public Accounts and the Emergency Relief Commission full, itemized reports of all receipts and expenditures of moneys for relief, together with the costs of administration thereof, for the preceding calendar month. The Commission collects relief statistics for all units, including those that do not receive State aid. Such statistics are published in the *Monthly Bulletin of Relief Statistics* and the *Biennial Report of the Illinois Emergency Relief Commission*. The strict control exercised by the State over local expenditures for relief purposes should minimize waste, inefficiency, and graft in the administration of relief. Economy in the administration of relief is of concern to practically every person in the State, because funds for grants to local units are derived from the sales tax and virtually every one contributes to these revenues.

IV. OTHER ASPECTS OF CONTROL

PURCHASING PRACTICES

The costs of local government in Illinois are unnecessarily increased by uneconomical methods of purchasing materials, supplies, and equipment. A great deal of the inefficiency in purchasing arises from the practice followed in most units of permitting each office to buy its own supplies. Among the drawbacks that attend such a system are: (1) grades and varieties of articles used cannot be properly standardized; (2) frequently deliveries are not carefully inspected; (3) goods are purchased in quantities either too large or too small; (4) savings from purchase of large quantities, if such purchase is justifiable, are often sacrificed; (5) loss is incurred through damage and deterioration of excessive stocks; (6) most purchases are not made on a basis of competitive bids; (7) favoritism, graft, and corruption are likely to be present.

Many of the weaknesses in the prevailing purchasing methods of local units could be obviated by the establishment in each county at least, and in each of the large cities, of a central purchasing office through which all goods would be purchased in accordance with standard specifications and competitive bids. The Federal Bureau of Standards conducts research, makes tests, and sets up specifications for the Federal government, and the information thus obtained is available to the state and local units. The central office should maintain a stock room and release goods only upon the requisition of the department or office that expects to use them.

That the value of centralized purchasing has been recognized, is indicated by the fact that it was in effect in 1937 in 250 American cities, 50 counties, and 36 states.²⁹ New York City adopted the system in 1934, and in the first year a saving of \$500,000 was effected on purchases of fuel oil and printing alone. The savings from centralized purchasing in Milwaukee, where it has been in effect for several years, are estimated to be about 15 per cent of the cost of goods purchased.

Although centralized purchasing is seldom found among the local governmental units of Illinois, the State government has used the system for more than twenty years. Practically all State purchasing is centralized in the Department of Finance, which includes the Division of Purchases and the Division of Printing, and the Division of Architecture and Engineering in the Department of Public Works and

²⁹*National Municipal Review*, Vol. XXVI, No. 6, June, 1937, p. 312.

Buildings. The University of Illinois maintains a central purchasing office and a central stock room. When a department needs supplies, it submits an authorized requisition for them to the central office, whereupon the order is filled and a charge is made for the amount.

Centralized purchasing can be used advantageously in counties and in large cities, but many of the local governmental units in Illinois are not large enough to utilize it effectively. One possible solution for this problem would be for the State to make its facilities available to the small local units. This plan might well be extended, in fact, to include even the counties and the large cities. In this manner, the State purchasing office would cooperate with the local purchasing offices.

In a few instances, the purchasing problem of small units has been solved through cooperative purchasing associations. The Kansas School Purchasing Association, purchasing supplies for over 500 schools, claims savings of from 25 to 50 per cent, and the St. Louis Valley Association estimates a saving to its members of 30 per cent over prices formerly paid.³⁰ Perhaps the largest cooperative purchasing association with reference to volume of purchases is that in Hamilton County, Ohio. This association, which has effected substantial savings, includes the county of Hamilton, the city of Cincinnati, the public library, the University of Cincinnati, and the city school district.

TAX-RATE AND DEBT LIMITS

A negative type of expenditures control represented by legal limitations upon property-tax rates and indebtedness is extensively used in Illinois and in most other states. Since space does not permit a detailed discussion of all the numerous limitations in Illinois, a brief mention of a few of them must suffice.³¹ First, it may be said that the property-tax rate for State purposes is not limited in any manner by either Constitution or statute. This fact, however, is obviously of little significance, since no levy has been made for this purpose since 1932. Counties are restricted by the Constitution to a maximum rate of 75 cents on the \$100 assessed valuation,³² with the exception of levies for payment of debt existing when the Constitution was adopted in 1870 and those authorized as additional to the 75 cent rate by vote of the

³⁰C. F. Chute, "Cooperative Purchasing in the United States and Canada," *National Municipal Review*, Vol. XXVII, No. 10, October, 1938, p. 503.

³¹For a complete compilation of tax-rate limitations, see *Tax-Rate Limits of Illinois Local Governments* as of August 1, 1938. A special report of the Illinois Tax Commission.

³²Article IX, sec. 8.

people. The other limitations upon tax rates have been prescribed by statute. Incorporated places have a maximum tax rate of $66\frac{2}{3}$ cents on the \$100 assessed valuation, but this rate may be increased to $87\frac{1}{2}$ cents by a vote of the people, and provision is also made for the imposition of several additional rates for specific purposes, most of which must be authorized by election.

School districts maintaining grades 1 to 8 or grades 9 to 12 cannot levy a rate for educational purposes in excess of \$1 unless approved by the voters of the district, in which case the maximum rate is \$1.50. These districts are limited to a levy of $37\frac{1}{2}$ cents for building purposes, but the rate may be increased to 50 cents by an election. Districts maintaining grades 1 to 12 are limited to a rate of \$1 for educational purposes, with a possible increase to \$2.50 upon approval of the voters. The limit upon the building-fund rate for this type of district is $37\frac{1}{2}$ cents, but it may be increased by an election to $87\frac{1}{2}$ cents. There is no legal limit upon the township rate for general corporate purposes, but the rate for poor relief is limited to 30 cents. The maximum rate for road and bridge purposes in townships is 25 cents, but an increase to 33 cents is possible when approved by the board of town auditors. Additional rates for specific purposes are also prescribed for townships. The maximum rate for road districts in counties not under township organization is 33 cents. Among other taxing units for which maximum rates are prescribed by law are non-high school districts, park districts, forest preserve districts, water districts, fire protection districts, public health districts, river conservancy districts, mosquito abatement districts, and tuberculosis sanitarium districts. With a few exceptions, the limitations upon the tax rates of local taxing units of Illinois do not apply to rates for the payment of principal and interest of bonds authorized by vote of the people.

The fact that limitations are not generally placed upon tax rates for debt service does not mean that the taxing units are not restricted as to the amount of indebtedness that they can incur. On the contrary, each local taxing unit is subject to a debt limit that is stated in terms of a percentage of the assessed valuation of the taxable real and personal property of the district. The constitutional limit is 5 per cent,³³ but this figure has been reduced by the Legislature to $2\frac{1}{2}$ per cent.³⁴ The latter, of course, is the effective limitation. With a few minor exceptions, no local taxing unit can legally incur indebtedness of any

³³Article IX, sec. 12.

³⁴*Illinois Revised Statutes*, Ch. 113, sec. 44.

kind that exceeds in the aggregate $2\frac{1}{2}$ per cent of the assessed valuation of the district. Except for repelling invasion, suppressing insurrection, or defense in time of war, the State cannot contract debts that exceed in the aggregate \$250,000, unless approved by the people at a general election.³⁵

The principle of tax rate and debt limits as instruments of expenditures control is open to serious criticism. Arbitrary limitations of this kind do not recognize varying conditions among the different communities, and they inject an element of rigidity into local fiscal systems. One community may be much wealthier than another and may therefore prefer to spend more for governmental services. Aside from differences in ability to support public services, it is possible that the needs or desires of a particular community may be of such a nature as to justify larger expenditures than would be warranted in other localities.

The defects of these limitations are discernible in their administration. In prescribing tax-rate limits, little consideration is given to the relative importance of the various taxing jurisdictions or to the functions which they perform. Rigid tax-rate limits make no allowance for the fact that assessment ratios vary widely among the various units. The limitations are ineffective because some way can usually be found to circumvent them. One of these methods is through the approval of additional rates, to which reference has already been made. Almost every taxing unit is authorized to levy additional rates for specific purposes, and the list can be extended by the Legislature. The most extensive list of additional rates applies to incorporated places. Cities are authorized to levy approximately thirty additional rates, the aggregate of which amounts to nearly \$5 on the \$100 assessed valuation, or more than seven times the maximum legal rate for general corporate purposes. Since two factors are involved in the computation of taxes—the assessed valuation and the tax rate—a limitation upon the latter can be nullified by an increase in the former. A third avenue of escape from maximum tax rates is through the creation of such special taxing districts as are listed in Table II. The existence of 140 units, exclusive of school and road districts, created for special purposes in Illinois is attributable in part at least to tax-rate limits.

Debt limits can also be circumvented by increasing assessed valuations and by creating special districts. The purpose of this type of limitation can also be defeated by the acquisition of materials or equipment through an arrangement whereby the governmental agency agrees

³⁵Article IV, sec. 18.

to make periodical payments for the use of the thing purchased, with the transfer of title to be deferred until an amount equivalent to the purchase price plus carrying charges has been paid. Such practices may not be legal, but they are difficult to prevent. Limitations upon indebtedness, moreover, cannot be effectively applied to such forms of floating debt as accounts payable, because many units do not keep complete and accurate records of this kind of debt.

Another type of tax-rate limit that is in effect in several states is the general, blanket, or over-all limitation. The various names by which this limitation is characterized suggest that it applies to the total or aggregate rate of all the taxing units. The over-all limitation cannot, of course, be circumvented through the establishment of special districts, but other courses such as the increasing of valuations and the authorizing of exemptions for certain purposes are available to thwart the purpose of such a device. States which have employed this method have found it necessary to grant many exemptions. This fact is demonstrated by the experience of Illinois with the so-called Juul Law—a type of over-all limitation—which has been largely nullified by numerous exceptions. The over-all limitation may be especially harmful in its effects when all rates must be scaled down proportionally because one or more units have levied unjustifiably high rates. Obviously, such an occurrence might seriously cripple a highly valuable service.

Rather than by means of tax-rate and debt limits, the most effective control of expenditures can be attained through an alert, informed citizenry and a modern budget system. If limitations must be retained upon tax rates and indebtedness, they should take the form of specific limits such as are now in effect in Illinois rather than the general limits that are found in some of the other states. In order that any limitations may be more easily changed to meet new conditions, they should be established by statute rather than incorporated in the Constitution.

SYNCHRONIZATION OF FISCAL YEARS, BUDGETS, TAX LEVIES, AND TAX COLLECTIONS

The dissimilarity in fiscal years and the improper adjustment of fiscal years to budgets, and to the levy and collection of taxes, militate against an efficient administration of finances in the local governmental units of Illinois. With the exception of the State and the school districts, no two of the principal types of governmental units use the same fiscal year. The fiscal year of the State is fixed by statute and runs from July 1 to the next following June 30; the fiscal year of school

districts is not prescribed by statute, but the vast majority of these units operate on the same fiscal year as the State. The budget form provided by the Tax Commission for the use of school districts under the Municipal Budget Law contains a space for fixing the fiscal year, and the instructions pertaining to the form suggest use of the fiscal year commencing July 1 and ending June 30.

The statutes do not fix any fiscal year for townships or road districts, but the Attorney General has expressed the view that the fiscal year of a township, unless otherwise adopted, should be considered as constructively adopted by usage to begin with one annual town meeting, that is, the first Tuesday in April of each year, and to end the day preceding the next following town meeting. Because the statute requires the supervisor to present an annual financial statement on the last Tuesday in March, the Tax Commission has recommended that the fiscal year begin on that date. Nearly all of the townships have adopted the fiscal year recommended by the Commission. The fiscal year for road districts, according to the view expressed by the Attorney General, should be considered as running from the last Tuesday in March until the Monday preceding the next following last Tuesday in March. According to statute, the fiscal year of each city or village organized under the general law shall commence at the date established by law for the annual election of municipal officers therein, or at such other times as may be fixed by ordinance. In practice, a large majority of cities and villages operate on a fiscal year that begins May 1 and ends April 30. The county board has power to fix the fiscal year for counties, and most of these units operate on a September 1-August 31 basis, although some counties use the December 1-November 30 period.

The reason for the dissimilarity in fiscal years lies in the multiplicity of tax-levying jurisdictions. Down through the years one layer of local government has been arbitrarily superimposed upon another. The numerous units commonly hold separate elections, and the election dates are usually different. The opinion prevails, not without reason, that the fiscal year and the term of office of the newly-elected officials should begin at approximately the same time. The most desirable remedy for the present chaotic condition would be to re-allocate the functions of the local units, except those of cities and special benefit districts, to the county. The county election should then be adjusted to the appropriate fiscal year. Pending the putting into effect of such a far-reaching reform, it would be desirable to shorten the ballot and consolidate the elections of all local units on a date com-

patible with the proper fiscal year. If it were not for certain special considerations that should be taken into account, the calendar year might seem to constitute the logical basis for the fiscal year. The Federal Government and the State now operate, however, on a fiscal year that begins July 1, and to change this situation would necessitate radical changes in the legislative sessions and financial procedures of these jurisdictions. The school term, moreover, naturally coincides with the July 1-June 30 fiscal year, and it is to the advantage of these units to use this basis. For the sake of uniformity it is suggested, therefore, that all local governmental units adopt the fiscal year July 1 to June 30.

In addition to other advantages which will be noted in the discussion that follows, the adoption of a uniform fiscal year for all governmental units would render possible the compilation of financial statistics on a comparable basis. Consolidated reports could then be published, and the citizens could see how the total tax dollar is being spent. They would thus be in a better position to determine whether the total cost of government is excessive and whether too much or too little is being spent for a particular function.

Since the budget by its nature is supposed to be a financial plan for the ensuing fiscal year, it follows necessarily that the plan should be prepared and adopted before the beginning of the fiscal year. In so far as tax revenues are concerned, the revenue side of the budget becomes effective through the adoption of tax levies. Tax levies should therefore be based upon the estimates in the budget and should be adopted sufficiently in advance of the beginning of the fiscal year to permit completion before that time of all the administrative details preliminary to collection. Under such an arrangement tax collections would begin at or shortly before the beginning of the fiscal year. Revenues would thereby be available at the outset for the financing of governmental activities, and the use of tax anticipation warrants could be reduced or avoided entirely.

The relationship between fiscal years, budgets, tax levies, and the collection of taxes in the local units of Illinois falls far short of the ideal that has been suggested. In fact, it would be difficult to conceive of a more haphazard arrangement than that which prevails in Illinois. Except in a few of the townships, budgets are not adopted until after the beginning of the fiscal year. For several of the units, the law permits the budget or appropriation ordinance to be adopted at any time within the first quarter of the fiscal year. The effect of this arrangement is that a local unit adopts a budget which presumably

constitutes the financial plan for a fiscal year, a part of which has already elapsed.

A further maladjustment is found in the relationship among the tax levy, the budget, and tax collection. The latest date for the certification of tax levies to the county clerk is fixed by statute for each unit. The tax levy is made subsequent to the adoption of the budget and is based upon the estimates of property-tax revenues as listed in that document. An inconsistency arises from the fact that the budget relates to the current fiscal year, whereas in several of the units the funds to be derived from the tax levy, because of the long lapse of time between the levy and the collection of taxes, will not be available until well toward the end of the current fiscal year or in the early part of the following fiscal period. In the case of townships, the levy is made early in April, but the delinquency date for the first installment of taxes based upon this levy is June 1 of the following year. Hence, tax revenues for townships are usually not available until the first quarter of the fiscal year next following the date of the tax levy. Although the statute fixes the time for the adoption of tax levies, it does not relate the tax levy to any particular year. In the case of the county, for example, it is not certain whether the taxes levied in 1939 and collectible in 1940 are for the fiscal year beginning September 1, 1939, or for that beginning September 1, 1940. Except in a few of the more populous counties where taxes are collected in part by townships, the county collects taxes for all taxing districts and makes periodical settlements with them. Because of the wide variation in fiscal years, many of the units receive their taxes long after the beginning of the fiscal year. A logical solution for the difficulties in Illinois would be the adoption of the plan suggested, whereby all units would adopt the same fiscal year; budgets and tax levies would be adopted before the beginning of the fiscal year to which they relate; the lapse of time between the levy and the collections would be greatly reduced; and tax collections would commence at or shortly before the beginning of the fiscal year. Adoption of this plan should greatly improve budgetary procedure and other aspects of financial administration in Illinois.

V. SUMMARY AND RECOMMENDATIONS

The local governmental units of Illinois have only recently made any significant progress in the development of an effective method of expenditures control, and the present system falls far short of the results that have been attained in several other states. In 15 states, a uniform system of accounts is required for units of the same grade, and in 8 other states uniformity is compulsory for specific units. Few states have yet adopted comprehensive budget laws applicable to all minor political subdivisions, but in many cases specific units are required to adopt budgets. Counties, for example, are required to adopt budgets in approximately 20 states. In 17 states, a state agency conducts audits of local accounts, and such audits are made in several other states upon the request of the local units. In a few states, a comprehensive annual report of the financial statistics of local governmental units is published by a state office.

The adoption of effective methods of control has made it possible for many states more nearly to practice the principle of popular control of the purse strings and thereby to achieve a more truly representative and responsible system of local government. These states have also been able to a greater extent to comply with the basic principle of public expenditures that the value derived from every public dollar spent should be at least as great as if the funds had been spent by private individuals.

Although Illinois has been slow to follow the example of other states in the adoption of a comprehensive system of expenditures control, the County Budget Law of 1933 and the Municipal Budget Law of 1937 are important steps in this direction. The former requires every county (except Cook, which operates under a separate law) to prepare and adopt a financial plan or budget and to maintain separate controls over the various funds therein. Transfers can be made from one appropriation to another only with the approval of the county board. Answers to a questionnaire sent to county clerks indicate that the county budget law is operating in a fairly satisfactory manner. Of the 75 counties that replied, 54 reported favorable experience, 12 were unfavorable, and 9 were either doubtful or non-committal. Since the budget law has been in effect only a few years, it is probable that it will gain in favor as the county officials become more familiar with its procedure and purposes.

The Municipal Budget Law of 1937 made it compulsory that each school district, township, road district, and other special-purpose dis-

strict adopt an annual budget and comply with a prescribed budgetary procedure. Before this law had been in operation long enough to test its merits, certain school officials exerted sufficient influence upon the Legislature to secure an amendment whereby compliance was made optional with the thousands of small school districts. The alternative course permits the small districts to post copies of their so-called budgets, prepared in connection with their applications for State aid. The State-aid budget lacks many of the essentials of a genuine budget, and it is devoid of essential controls. Since a large majority of the small districts have chosen not to comply with the provisions of the Municipal Budget Law, the amendment of 1939 seems definitely to be a backward step in the control of local expenditures.

For the units that are operating under the Municipal Budget Law, sufficient time has not yet elapsed to permit an accurate appraisal. Attendance at the budget hearings has been small in most units, and the law has been criticized on this ground. A large majority of the citizens, however, are not familiar with the budget law and consequently do not appreciate its purpose. Regardless of attendance at budget hearings, the fact that a budget must be prepared and submitted to the people should serve as an incentive to local officials to present one that they can successfully defend.

Paradoxically, the Municipal Budget Law does not apply to cities and villages, but these units are required to adopt budgets under another law of long standing. Because of the rather vague and indefinite language of the law and the fact that no provision is made for execution of the budget, a large majority of cities and villages do not adopt a budget. Many city and village officials feel that the adoption of the appropriation ordinance fulfills the requirements of a budget, but such an ordinance is not a satisfactory substitute for a good budget.

In view of the fact that a properly designed and carefully executed budget is the key instrument of financial control, every local governmental unit should be required to adopt a budget and to control it by appropriate measures. In every case the budget and the methods of budgetary control should be as simple as good business practice and legal requirements will permit. Budgets and tax levies should be adopted sufficiently in advance of the beginning of the fiscal year to permit completion before that time of all administrative details preliminary to collection of taxes. In order that all units may have revenues available at the beginning of the fiscal year, it is desirable that all operate on the same basis, preferably the period July 1 to June 30.

A large majority of the local governmental units in Illinois do not maintain a system of accounts that would be adequate for an up-to-date budgetary procedure. The Illinois law does not require a uniform system of accounts for the local units, although considerable uniformity is found among counties and school districts. Uniform accounts are prescribed for motor fuel tax funds and emergency relief funds. Local accounting systems could no doubt be improved if all units of the same grade and similar size were required to keep uniform accounts. These systems should be kept as simple as good financial control will permit. A state office of public accounts should be established as a branch of some existing agency such as the Tax Commission, or as a separate agency, for the purpose of formulating accounting systems and rendering assistance to the local units in the installation and maintenance of such systems.

Most of the local units in Illinois do not have a post-audit conducted by an outside agency, and many of the audits that are made are of a superficial character. If a State office of public accounts were established, as previously recommended, this agency should be required to make periodical audits of all local units. In addition to an accurate verification of all financial transactions, these audits should include a critical analysis of local administration.

Many of the local units publish no financial reports, and most of those that are published convey little information to the taxpayer. The published reports are usually itemized to such an extent that the report is practically meaningless. These reports would be more understandable and publishing costs would be reduced, if the items were summarized according to principal classes of expenditures. Illinois has no State agency that publishes complete financial statistics for all governmental units. Such a report, if published, would enable the people to see where the tax dollar is derived and how it is spent; to determine whether too much or too little is being spent on a particular function. Published reports of this type, moreover, would facilitate studies of comparative costs of local government. The responsibility for the collection and publication of financial statistics of local government might logically be assigned, along with the other functions suggested, to the proposed new office of public accounts.

Adoption of the methods of expenditures control that have been suggested herein should reduce the cost and improve the administration of local government. With the growth of local expenditures, these objectives are becoming increasingly important.

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